Ryan Prepared Opening Statement
State of the Economy and Implications for the Budget
December 5, 2007

- ➢ I thank the Chairman for organizing this important and well-timed hearing.

- ➢ As Chairman Spratt has noted, there are a host of *legitimate* concerns in the market today, many due to the bursting of the housing bubble. What I'd like to do is put these recent developments in their proper context.

- ➢ First, we should not dismiss the clear economic successes of recent years, and the still-solid underlying fundamentals of the U.S. economy.

  - Prudent and well-timed tax relief in 2001 made the recession that year one of the shortest in U.S. history.

  - And further tax reductions in 2003 have led to economic benefits that we still enjoy today – and which have, in fact, made the economy *more resilient* than it would have otherwise been in the face of the current housing slump and credit crunch.

- ➢ Let's look at the facts.

  - This economy has enjoyed more than four years of uninterrupted job gains, with roughly 8.5 million new jobs created.

  - Our unemployment rate stands at just 4.7 percent – one of the lowest readings of the past six years.

- Due to this solid job market, the latest quarter showed American workers' real after-tax income grew by nearly 4 percent from a year earlier.

- The stock market is in a period of correction right now, but even in the midst of the current volatility, equity indexes reached an all-time high in October.

- And in terms of the federal budget, the solid economic growth of the past few years has been the key factor in driving down the deficit – which this year fell to just 1.2 percent of GDP, roughly half the level of the past 40 years.

➢ These are real gains that affect real people.

➢ But now we have a set of conditions that Dr. Feldstein describes as a "triple threat" to the economy: a credit market crisis, a decline in housing prices and home building, and a reduction in consumer spending.

➢ Add to those a clear upside risk of inflation. Oil prices have risen to an all-time high recently, while the price of gold – a traditional bell-weather of rising inflation – recently hit a 27-year high.

➢ Meanwhile, to stem the combined effects of the housing slump and credit crunch, the Federal Reserve has cut interest rates in recent months, and has signaled that more reductions may be on the way.

➢ That, in turn, has led to further declines in the dollar, which adds even more to inflationary pressures by raising import prices.

- In this climate, monetary policy will continue to be crucial to getting through this rough patch. But Congress also needs to recognize its chief role in setting the path of fiscal policy in this country and the important ways that affects the economy and the budget in the long run.

- An easing monetary policy stance, coupled with proposals for a high-tax policy, could very well lead to the worst mixture – inflation and slower growth, or *stagflation* as it was known in the late 1970s when a similar policy blend prevailed.

- So far, the actions of this Congress are not reassuring in terms of setting fiscal policy for real growth. For one – Congress is creating a great deal of tax *uncertainty*.

  - The end of the current tax year is less than a month away, and Congress has yet to pass a measure dealing with the alternative minimum tax, or "AMT"; and if Congress fails to act, more than 20 million taxpayers will be hit with a significant increase in their tax burden – and one that the Federal government never even intended to impose.

  - Meanwhile, the Majority is considering a number of massive tax increases – which under the guise of pay-as-you-go [PAYGO] – they allege are needed to "pay for" their recent spending increases.

  - There is also considerable doubt about the 2001 and 2003 tax laws and whether Congress, and the next President, will let those laws lapse after 2010, leading to the single largest tax increase in our nation's history.

- At a time when credit markets are freezing up and some businesses are having difficulty attracting financing in the marketplace, Congress is gumming up investment and expansion plans by creating a high degree of uncertainty about future tax rates on business profits and capital income.

- **CHART:** But one thing the Majority has been certain about is their claim on ever-higher tax revenues in the future. As the chart shows, over the long run, the Majority's proposed revenue path would push the tax burden on the American economy to a historically unprecedented level by the end of the next decade – the chart shows that revenues as a share of GDP would reach nearly 21 percent by the end of the next decade, and nearly 24 percent by the middle of the century – compared to the historical average of 18.3 percent.

- The driving force behind all of these tax hike plans is, of course, the future path of government spending. This Committee knows all too well that we will see unprecedented strains on the federal budget in the coming decades as health care costs continue to rise rapidly and the baby boom generation starts to retire.

- Congress can choose to deal with these massive unfunded liabilities by chasing spending with ever higher taxes, which will sink the economy, harm our competitiveness, and guarantee an erosion in the value of the dollar.

- Or, it can make the necessary choices today to reform our entitlement programs and curb this dangerous spending path.

- Addressing our long-term entitlement problem, giving businesses and investors – *and American families* – tax certainty, keeping marginal tax rates low, and promoting capital formation, innovation and productivity is the best recipe for ***real, long term, non-inflationary growth***.